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TO: Supervisor Michael D. Antonovich, Mayor
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

FROM: J. Tyler McCauley *J. Tyler McCauley*
Auditor-Controller

SUBJECT: **FISCAL AUDIT OF WESTSIDE CHILDREN'S GROUP HOME, INC. – A
GROUP HOME FOSTER CARE CONTRACTOR**

Attached is our audit report on Westside Children's Group Home, Inc. (Westside) fiscal operations for the period July 1, 1999 through June 30, 2000. Westside is licensed to operate four group homes with a combined resident capacity of 24 children and is located in the Fourth Supervisorial District. During our review period, Westside received a total of approximately \$930,000 in group home funds from the Department of Children and Family Services (DCFS). We reviewed this agency upon DCFS' request.

Summary of Findings

Our review disclosed a total of \$75,321 in questioned costs. Included in this amount are \$14,080 in expenditures that were not adequately documented as program related and \$60,231 in inappropriately allocated housing costs.

In addition, we found that Westside had outstanding loans with the Executive Director that were not adequately supported. We have recommended that the Agency refrain from repaying any remaining loan amounts until they can fully support the amounts owed. We also noted several deficiencies in Westside's controls over the receipt and disbursement of group home funds that contributed to the questioned expenditures discussed above. Westside also needs to strengthen internal controls over payroll, cost allocation, bank reconciliations and insurance requirements. Details of our findings are discussed in the attached report.

DCFS should ensure that the Agency's management takes appropriate corrective actions to address the recommendations in this report and also monitor this contractor to ensure that the corrective actions result in permanent changes.

Review of Report

We discussed our report with Westside management on February 20, 2001. They have agreed to provide DCFS with a written response and corrective action plan within 30 days of the report date. In addition, DCFS has agreed to provide my office with a written response within 60 days detailing the resolution of all findings contained in the report. We thank Westside management and staff for their cooperation during our review.

JTM:PTM:MR:RD

Attachment

c: David E. Janssen, Chief Administrative Officer
Public Information Office
Audit Committee Members
Commission for Children and Families
Department of Children and Family Services
 Anita Bock, Director
 Barry Chass, Assistant Division Chief
 Ed Sosa, Chief, Out of Home Care Programs
 Genevra Gilden, Chief, Quality Assurance Division
Westside Children's Group Home, Inc. – Group Home Contractor
 Judy Marie Mitchell, Executive Director
 Board of Directors
California Department of Social Services
 Sharon Ferrante, Chief, Foster Care Audit Bureau
 Evelyn Hemenover, Chief, Foster Care Rates Bureau

Westside Children's Group Home, Inc.
Fiscal Audit of Group Home Contract

Schedule of Findings

Background

The Department of Children and Family Services (DCFS) contracts with Westside Children's Group Home, Inc. (Westside) to provide the basic needs and services for foster care children placed in the Agency's care. Westside is licensed to operate four group homes with a combined resident capacity of 24 children and is located in the Fourth Supervisorial District.

Under the provisions of the Contract, DCFS pays Westside a monthly rate for each child, based on a rate classification level determined by the California Department of Social Services (CDSS). Westside received a monthly rate of between \$3,440 and \$3,604 per child during the period of July 1, 1999 through June 30, 2000, a total of approximately \$930,000.

The purpose of our review was to ensure that Westside has appropriately accounted for and spent foster care funds on allowable and reasonable expenditures in providing necessary care and services to children placed in the Agency's care. We also evaluated the adequacy of Westside's accounting records, internal controls and compliance with the Contract and applicable federal, State and County fiscal guidelines governing the disbursement of group home foster care funds.

Applicable Regulations and Guidelines

Westside is required to operate in accordance with certain federal, State and County regulations and guidelines. We referred to the following applicable regulations and guidelines during our audit:

- Group Home Foster Care Contract (Contract), including Exhibit F, Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook).
- Federal Office of Management and Budget Circular A-122 (Circular), Cost Principles for Non-Profit Organizations.
- California Department of Social Services - Manual of Policies and Procedures (CDSS- MPP).
- California Code of Regulations, Title 22 (Title 22).

Questioned Costs

Our review disclosed a total of \$75,321 in questioned costs. Details of these costs are discussed below.

Unsupported/Inadequately Supported Costs

We noted \$14,080 in unsupported or inadequately supported expenditures, as follows:

- \$7,946 in check and credit card expenditures not supported by itemized vendor receipts.
- \$1,970 for a computer purchased with group home funds. We were unable to locate the computer in any of the four group home facilities operated by the Agency.
- \$1,749 in DCFS supplemental payments made to the Agency in January 2000. We were not able to trace the payments to the Agency's bank statements to ensure the funds were deposited and used to benefit the foster children.
- \$1,518 paid to five of six independent contractors tested, where the payments were not adequately supported. The Agency either did not maintain an agreement with the contractors or did not have an invoice for the services provided. The A-C Handbook, section 3.2, requires that agreements and invoices be maintained for all independent contractors detailing the billing rates, time and attendance information and nature of services provided.
- \$743 for two Agency checks made payable to cash. The Agency provided vendor receipts for the payments. However, the amount of the receipts did not agree with the amount of the checks and the receipts were not cross-referenced to the checks.
- \$154 in gasoline charges and mileage reimbursements that were not supported by vehicle travel logs or mileage claims.

Shelter Costs

The Agency's four group home facilities are owned by the Executive Director and leased to the group home. We questioned \$60,231 in shelter costs associated with these facilities, as follows:

- \$45,660 in lease payments. The Agency's Executive Director and spouse reside in one of the group homes and occupy approximately 43% of the facility (three of seven bedrooms). However, the Agency only allocated 7% (\$3,600) of the facility's \$49,260 annual shelter costs to the Executive Director. Therefore, we question the \$45,660 (\$49,260 - \$3,600) in shelter costs charged to the group home. We also noted that the Agency did not allocate any of the facility's other "costs of housing" (i.e., utilities, maintenance, furnishings, food, etc.) to the Executive Director, in accordance with the Circular, Attachment B, section 19. The Agency needs to develop a cost allocation plan for their shelter and housing costs that incorporate the cost principles specified in the Circular and other applicable regulations. In addition, Westside needs to apply the plan retroactively.
- \$14,571 in property tax payments made in December 1999 and February 2000 for the four facilities leased by the group home. Property tax payments should be the responsibility of the lessor.

Penalties and Interest Charges

\$480 in expenditures for various penalties and interest charges, including penalties for underpayment of their 1999 payroll taxes and finance charges for the Agency's credit card. Per sections 16 and 23 of the Circular's Attachment B, these costs are unallowable.

Other Unallowable Costs

- \$429 for furniture, which was delivered to the Executive Director's personal residence in Kern County. This expenditure appears personal in nature.
- \$101 in expenditures for veterinarian bills and pet products purchased for the Executive Director's pets.

Recommendations

1. **DCFS management resolve the \$75,321 in questioned costs and, if appropriate, collect any disallowed amounts.**

In order to demonstrate the ability to appropriately account for group home funds and administer the group home program in compliance with the terms of their agreement with the County, the Agency should implement the following recommendations:

Westside management:

- 2. Maintain adequate support documentation for all group home expenditures, including original itemized receipts and detailed travel/mileage logs.**
- 3. Ensure group home funds are spent on necessary, allowable and reasonable expenditures to carry out the purpose and activities of the group home.**
- 4. Develop a plan to appropriately allocate their housing costs.**
- 5. Apply the cost allocation plan retroactively.**

Contract Compliance and Internal Controls

Our audit disclosed several contract compliance issues and internal control weaknesses in addition to those already mentioned. These deficiencies contributed to the questioned expenditures discussed above. DCFS should ensure that Westside's management implements the corrective actions recommended in this report. DCFS should also monitor this contractor to ensure that the corrective actions result in permanent changes.

Revenue Procedures

- The Agency did not maintain a daily attendance log for residents. As a result, we were unable to verify the number of days a child was placed with the Agency and whether the amounts paid to the Agency were appropriate.
- The Agency did not maintain an accounts receivable ledger with which to monitor payments received from DCFS.
- The Agency did not maintain duplicate bank deposit slips/receipts for deposit of funds received from DCFS. These are necessary to facilitate verifying that funds were properly deposited.
- The Agency does not always make timely deposits of group home revenue. We noted one County warrant for \$5,319 that was received on October 21, 1999 but not deposited until December 3, 1999. To ensure adequate security over group home funds, the Agency should make deposits daily, in accordance with the A-C Handbook, section 4.011. In no case should deposits be less frequent than weekly.

Recommendations

Westside management:

- 6. Maintain a daily attendance log for residents.**
- 7. Maintain an accounts receivable ledger.**
- 8. Maintain duplicate bank deposit slips/receipts.**
- 9. Deposit all cash receipts on a timely basis, in accordance with contract requirements.**

Disbursement/Accounting Procedures

- The Agency purchases clothing, food and various household products and supplies on an as-needed basis. However, the Agency does not always document whether the items purchased are used on behalf of the group home children. At minimum, the Agency should indicate the location of the group home when purchasing general use items such as food and household products. For clothing purchases, the Agency should indicate the name of the child receiving the clothing on the corresponding checks and receipts.
- For 24 (65%) of 37 expenditures reviewed, supporting documentation such as invoices and receipts were not marked "paid" or otherwise cancelled and check numbers were not cross-referenced. As a result, the Agency could not locate supporting documentation for many expenditures.
- Three (8%) of 37 checks reviewed were made payable to "cash". The A-C Handbook, section 4.012, states that checks shall not be made payable to "cash" or signed in advance.
- The Agency does not always record expenditures in their appropriate accounts. We noted that two (5%) of 37 expenditures tested were misclassified in the general ledger.
- The Agency did not adequately account for allowance payments made to the group home children. Records should be maintained for allowance payments that include the date, amount and name of the recipient and should be signed by an appropriate Agency official or, if possible, the child receiving the allowance. The Agency should also maintain an approved allowance plan and rate of pay.

- The Executive Director's spouse, who is not an Agency employee, is an authorized check signer for the Agency.
- The Agency does not maintain a list of fixed assets. Therefore, we could not verify that all fixed assets purchased were accounted for.
- The Agency's balance sheet dated June 30, 2000 shows a negative balance of \$10,301 in the accounts payable section. Per Agency management, this amount represents an overpayment made to the Executive Director for a previously outstanding loan payable. However, the Agency did not provide any supporting documentation for the amount or for the initial loan made by the Executive Director to the Agency. The Agency needs to ensure the loan amount is adequately supported and is correctly reflected in the Agency's financial records. In addition, the Agency needs to document the terms and conditions of all outstanding and future loans made to the Agency.

Recommendations

Westside management:

- 10. Maintain records to account for the distribution of all purchases.**
- 11. Ensure that supporting documentation for expenditures is marked "paid" or otherwise cancelled and cross-referenced to corresponding checks.**
- 12. Not make checks payable to "cash".**
- 13. Ensure expenditures are classified appropriately and accurately reflect the transactions of the Agency.**
- 14. Maintain complete allowance logs.**
- 15. Ensure that only Agency employees are authorized to sign checks.**
- 16. Maintain a list of fixed assets.**
- 17. Provide supporting documentation to DCFS for the loan amount shown in the Agency's June 30, 2000 balance sheet.**
- 18. Refrain from repaying any outstanding loans unless Westside can fully support the amounts owed.**

- 19. Document the terms and conditions of all outstanding and future loans made to the Agency.**

Payroll Procedures

We tested 12 employees' timecards and found the following:

- Personnel files did not contain authorized salary rates, as required by the A-C Handbook.
- No supervisors and only three employees signed timecards.
- The Agency did not maintain logs to record and monitor employee benefit balances.

Recommendations

Westside management:

- 20. Maintain authorized salary rate forms in each employee's personnel file.**
- 21. Ensure that timecards are signed by employees, and that management documents their review and approval.**
- 22. Maintain appropriate logs to calculate benefit balances and reduce hours charged accordingly.**

Cost Allocation Plan

Westside receives group home funding from two sources: Los Angeles County and Kern County. However, the Agency does not allocate their expenditures so that they are identifiable to each funding source, in accordance with the A-C Handbook. Westside should allocate their expenditures by funding source and ensure the allocation is reflected in the expenditure reports they submit to DCFS.

Recommendation

- 23. Westside management allocate their expenditures by funding source, in accordance with County requirements.**

Bank Reconciliation

Westside does not sign and date their bank reconciliations. Therefore, we were unable to determine whether bank reconciliations were prepared timely and reviewed for appropriateness and accuracy. Section 4.011 of the A-C Handbook states that monthly bank reconciliations should be prepared within 30 days of the bank statement date and reviewed by management for appropriateness and accuracy. Both the preparer and the reviewer must sign and date the bank reconciliations.

Recommendations**Westside management:**

- 24. Reconcile their bank account in a timely manner.**
- 25. Ensure bank reconciliations are reviewed by a supervisor and approved in writing for appropriateness and accuracy.**

Non-Compliance with Insurance Requirements

Westside's professional liability insurance policy does not meet the \$2,000,000 per claim limit, as required by Section 37 of the contract. The Agency's insurance policy is limited to \$1,000,000 per claim.

Recommendation

- 26. Westside management maintain insurance coverage as required by the contract.**